[COMMITTEE PRINT]

PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES

(A Revised Checklist of Itemized Deductions for Use in Taxable Year 1980)

ORIGINAL

COMPLETED

A CHECKLIST

PREPARED FOR THE

SELECT COMMITTEE ON AGING

U.S. HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

FIRST SESSION

REVISED EDITION

FEBRUARY 1981

Comm. Pub. No. 97-276

Printed for the use of the Select Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE

72-748 O WASHINGTON : 1981

SELECT COMMITTEE ON AGING

CLAUDE PEPPER, Florida, *Chairman*

EDWARD R. ROYBAL, California
MARIO BIAGGI, New York
IKE F. ANDREWS, North Carolina
JOHN L. BURTON, California
DON BONKER, Washington
THOMAS J. DOWNEY, New York
JAMES J. FLORIO, New Jersey
HAROLD E. FORD, Tennessee
WILLIAM J. HUGHES, New Jersey
MARILYN LLOYD BOUQUARD, Tennessee
JIM SANTINI, Nevada
DAVID W. EVANS, Indiana
STANLEY N. LUNDINE, New York
MARY ROSE OAKAR, Ohio
THOMAS A. LUKEN, Ohio
GERALDINE A. FERRARO, New York
BEVERLY B. BYRON, Maryland
WILLIAM R. RATCHFORD, Connecticut
DAN MICA, Florida
HENRY A. WAXMAN, California
MIKE SYNAR, Oklahoma
EUGENE V. ATKINSON, Pennsylvania
BUTLER DERRICK, South Carolina
BRUCE F. VENTO, Minnesota
BARNEY FRANK, Massachusetts
TOM LANTOS, California
BOB SHAMANSKY, Ohio
RON WYDEN, Oregon

MATTHEW J. RINALDO, New Jersey,
Ranking Minority Member
WILLIAM C. WAMPLER, Virginia
JOHN PAUL HAMMERSCHMIDT, Arkansas
MARC L. MARKS, Pennsylvania
RALPH S. REGULA, Ohio
ROBERT K. DORNAN, California
NORMAN D. SHUMWAY, California
OLYMPIA J. SNOWE, Maine
DANIEL E. LUNGREN, California
MILLICENT FENWICK, New Jersey
JAMES M. JEFFORDS, Vermont
DOUGLAS K. BEREUTER, Nebraska
THOMAS J. TAUKE, Iowa
THOMAS E. PETRI, Wisconsin
JUDD GREGG, New Hampshire
DAN COATS, Indiana
GEORGE C. WORTLEY, New York
HAL DAUB, Nebraska
LARRY E. CRAIG, Idaho
PAT ROBERTS, Kansas
BILL HENDON, North Carolina
GREGORY W. CARMAN, New York

CHARLES H. EDWARDS III, *Chief of Staff*
YOSEF J. RIEMER, *Deputy Chief of Staff*
VAL J. HALAMANDARIS, *Special Counsel*
JAMES A. BRENNAN, *Assistant to the Chairman*
WALTER A. GUNTHARP, Ph. D., *Minority Staff Director*

FOREWORD

In my position as Chairman of the Select Committee on Aging, I am constantly reminded of the economic problems that many older Americans face due to limited incomes. When one considers the vast number of older Americans who are overpaying their income taxes, because of a failure to take advantage of legal tax reduction mechanisms, one feels compelled to act to minimize this problem.

There are several important tax relief measures, which have taken effect in recent years. It is impossible, however, for individuals of any age to take advantage of these provisions and obtain tax relief, unless they are aware of the changes. Without this knowledge, older Americans would be losing much needed additional income.

In past years, our House Aging Committee has made available an annual checklist of itemized deductions prepared by the Senate Special Committee on Aging to aid elderly taxpayers in completing their income tax forms. We are deeply grateful to the Joint Committee on Taxation for reviewing past year's checklists and suggesting needed changes to reflect changes in the tax code. In addition, the Joint Committee on Taxation has attempted to simplify this document so that it will be easier for older persons to use. I commend the Joint Committee on Taxation for its assistance this year and the Senate Special Committee on Aging for its effort. I also want to thank the Ways and Means Committee Minority Staff for reviewing this guide and suggesting necessary changes.

Our Committee is happy to submit this revised summary for the benefit of all who may read it.

CLAUDE PEPPER, *Chairman.*

PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES

(A Revised Checklist of Tax Return Information for Use in Taxable Year 1980)

A. Filing Requirements

SINGLE INDIVIDUALS

Single individuals under the age of 65 must file a return if they had gross income of $3,300 or more for the year. Those over age 65 must file if they had gross income of $4,300 or more.

MARRIED INDIVIDUALS

Married individuals under the age of 65 must file a return if the couple's combined gross income was $5,400 or more. If only one spouse is age 65 or older, the filing level is $6,400. If both spouses are age 65 or older, the filing level is $7,400.

An individual who is married and whose spouse files a separate return must file a return if gross income was $1,000 or more.

QUALIFYING WIDOW OR WIDOWER

Qualifying widows or widowers must file a return if they had gross income of $4,400 or more during the year. For qualifying widows or widowers who are 65 or older, the filing level is $5,400.

SELF-EMPLOYED PERSONS

Self-employed individuals must file a return if they had net earnings from self-employment of $400 or more.

B. Personal Exemptions

Each taxpayer is entitled to a $1,000 personal exemption. Married taxpayers generally are entitled to an additional $1,000 exemption for their spouses. Furthermore, additional exemptions are provided for age (65 or older) and blindness. Finally, individuals may take an exemption for each person who qualifies as a dependent.

C. Zero Bracket Amount

The zero bracket amount (formerly, the standard deduction) is the portion of an individual's income which is not subject to tax. The zero bracket amount is (1) $3,400 for married individuals filing jointly, or qualifying widows or widowers, (2) $2,300 for single individuals, or heads of households, and (3) $1,700 for married individuals filing separately.

D. Exclusions

CAPITAL GAINS

In general, 60 percent of net long-term capital gain is excluded from gross income.

SALE OF PERSONAL RESIDENCE

Individuals who are age 55 or older may elect to exclude, on a one-time basis, up to $100,000 of the gain from the sale of a personal residence. For the exclusion to apply, the taxpayer must have owned and occupied the residence for 3 of the 5 years ending on the date of sale.

DIVIDENDS AND INTEREST

In general, individuals may exclude up to $100 ($200 on a joint return if each spouse has at least $100 of dividends) of dividends received during the year.

For 1981 and 1982 tax years (to be reflected on 1981 and 1982 tax returns), $200 ($400 in the case of joint returns) of interest and dividends may be excluded from gross income.

DISABILITY INCOME EXCLUSION

Certain individuals may exclude up to $5,200 per year of disability income. In general, to qualify for this exclusion, an individual must be under age 65, must have retired on disability, and must have retired because of permanent and total disability.

E. Itemized Deductions [1]

MEDICAL AND DENTAL EXPENSES

The portion of medical expenses that exceeds 3 percent of a taxpayer's adjusted gross income may be deducted. (However, medicine and drug expenses are taken into account only to the extent that they exceed 1 percent of adjusted gross income.)

One-half of the amount spent for medical insurance (up to $150) may be deducted without regard to the 3-percent floor. The remainder is lumped with other medical expenses and is subject to the 3-percent floor.

TAXES

In general, State, local, or foreign income tax, real property tax, personal property tax, and general sales taxes are deductible.

INTEREST

Interest payments are deductible by individuals who are legally liable to make them. Items commonly deducted as interest include: Mortgage interest, "points" paid by a borrower, mortgage prepayment penalties, separately stated finance charges, bank credit card plan interest, interest on personal loans, and interest on business loans.

---

[1] For further details regarding various itemized deductions, p. 5.

CONTRIBUTIONS

Contributions of cash or property to qualified organizations may be deducted. In general, the deduction may not exceed 50 percent of an individual's adjusted gross income.

CASUALTY AND THEFT LOSSES

Personal casualty and theft losses are deductible to the extent that they exceed $100 per occurrence and are not reimbursed through insurance or otherwise.

MISCELLANEOUS DEDUCTIONS

In addition to medical and dental expenses, taxes, interest, charitable contributions, and casualty and theft losses, a number of other, miscellaneous expenses may be claimed as itemized deductions. Some of the more common expenses in this category include: dues paid to professional societies, employment-seeking expenses, employment-related education, subscriptions to professional journals, union dues, investment counsel fees, safe deposit box rental, and tax counsel and assistance.

F. Tax Credits

CREDIT FOR THE ELDERLY

Individuals who are age 65 or older, or who are under age 65 and receive a taxable pension or annuity from a public retirement system, may be entitled to claim the credit for the elderly. The maximum amount of the credit is 15 percent of one of the following amounts: (1) $2,500 for a single person, head of household, or qualifying widow or widower; (2) $2,500 for a married individual filing a joint return, if only one spouse is 65 or older; (3) $3,750 for a married individual filing a joint return, if both spouses are 65 or older; or (4) $1,875 for a married individual filing a separate return, if the individual and his or her spouse were not members of the same household during the year.

CHILD AND DISABLED DEPENDENT CARE CREDIT

Taxpayers may be entitled to a credit equal to 20 percent of the amount paid for the care of a dependent under the age of 15, a disabled dependent, or a disabled spouse, if the payment is made to enable the taxpayer to work or look for work. For a taxpayer with one qualifying dependent, the maximum credit is $400. If there are two or more qualifying dependents, the maximum credit is $800.

EARNED INCOME CREDIT

Taxpayers with dependent children generally are entitled to a refundable credit equal to 10 percent of the first $5,000 of earnings (for a maximum credit of $500). The credit phases out at a rate of 12.5 percent as income rises from $6,000 to $10,000 (that is, a reduction of 12½ cents for each additional dollar of income).

RESIDENTIAL ENERGY CREDIT

Taxpayers are entitled to a credit equal to 15 percent of the first $2,000 spent on qualifying energy-saving items. Qualifying energy-saving items include: insulation, storm or thermal windows or doors, caulking or weather stripping, clock thermostats, furnace replacement burners, and meters that display the cost of energy use.

In addition, taxpayers may receive an additional energy credit for amounts spent on solar, wind-powered, or geothermal equipment for their homes. This credit is for 40 percent of the first $10,000 of those costs.

CREDIT FOR POLITICAL CONTRIBUTIONS

Taxpayers may take credits for up to one-half of political contributions made during the year. The maximum credit is $50 on a single return and $100 on a joint return.

G. Presidential Election Campaign Fund Checkoff

Additionally, an individual taxpayer may voluntarily earmark $1 of taxes ($2 on joint returns) each year for the Presidential Election Campaign Fund. (This does not result in any increase or decrease of the tax liability.)

ITEMIZED DEDUCTIONS

A. Checklist of Itemized Deductions for Schedule A (Form 1040)

MEDICAL AND DENTAL EXPENSES

Medical and dental expenses (unreimbursed by insurance or otherwise) are deductible to the extent that they exceed 3 percent of your adjusted gross income (line 31, Form 1040).

INSURANCE PREMIUMS

One-half of medical, hospital or health insurance premiums are deductible (up to $150) without regard to the 3 percent limitation for other medical expenses. The remainder of these premiums can be deducted, but is subject to the 3 percent rule.

DRUGS AND MEDICINES

Included in medical expenses (subject to 3 percent rule) but only to extent exceeding 1 percent of adjusted gross income (line 31, Form 1040).

OTHER MEDICAL EXPENSES

Other allowable medical and dental expenses (subject to 3 percent limitation):

Abdominal supports (prescribed by a doctor).
Acupuncture services.
Ambulance hire.
Anesthetist.
Arch supports (prescribed by a doctor).
Artificial limbs and teeth.
Back supports (prescribed by a doctor).
Braces.
Capital expenditures for medical purposes (e.g., elevator for persons with a heart ailment)—deductible to the extent that the cost of the capital expenditure exceeds the increase in value to your home because of the capital expenditure. You should have an independent appraisal made to reflect clearly the increase in value.
Cardiographs.
Chiropodist.
Chiropractor.
Christian Science practitioner, authorized.
Convalescent home (for medical treatment only).
Crutches.
Dental services (e.g., cleaning, X-ray, filling teeth).
Dentures.
Dermatologist.
Eyeglasses.

Food or beverages specially prescribed by a physician (for treatment of illness, and in addition to, not as substitute for, regular diet; physician's statement needed).

Gynecologist.

Hearing aids and batteries.

Home health services.

Hospital expenses.

Insulin treatment.

Invalid chair.

Lab tests.

Lipreading lessons (designed to overcome a handicap).

Neurologist.

Nursing services for medical care, including nurse's board paid by you).

Occupational therapist.

Ophthalmologist.

Optician.

Optometrist.

Oral surgery.

Osteopath, licensed.

Pediatrician.

Physical examinations.

Physical therapist.

Physician.

Podiatrist.

Psychiatrist.

Psychoanalyst.

Psychologist.

Psychotherapy.

Radium therapy.

Sacroiliac belt (prescribed by a doctor).

Seeing-eye dog and maintenance.

Speech therapist.

Splints.

Supplementary medical insurance (Part B) under medicare.

Surgeon.

Telephone/teletype special communications equipment for the deaf.

Television set if individual has a hearing impairment and the set is specially equipped with a visual display of the audio portion of television programs. Similarly the cost of an adaptor for a convention television that performs the same function is now considered a medical deductive by the IRS.

Transportation expenses for medical purposes (9¢ per mile, plus parking and tolls or actual fares for taxi, buses, etc.).

Vaccines.

Vitamins prescribed by a doctor (but not taken as a food supplement or to preserve general health).

Wheelchairs.

Whirlpool baths for medical purposes.

X-rays.

Expenses may be deducted only in the year you paid them. If you charge medical expenses on your bank credit card, the expenses are deducted in the year the charge is made regardless of when the bank is repaid.

TAXES

Real estate.
General sales.
State and local income.
Personal property.

If sales tax tables are used in arriving at your deduction, ordinarily you may add to the amount shown in the tax tables the sales tax paid on the purchase of the following items: automobiles, trucks, motorcycles, airplanes, boats, mobile homes, and materials used to build a new home when you are your own contractor.

When using the sales tax tables, add to your adjusted gross income any nontaxable income (e.g., social security, veterans' pensions or compensation payments, railroad retirement annuities, workmen's compensation, untaxed portion of long-term capital gains, dividends untaxed under the dividend exclusion, interest on municipal bonds, unemployment compensation and public assistance payments).

CONTRIBUTIONS

In general, contributions may be deducted up to 50 percent of your adjusted gross income (line 31, Form 1040). However, contributions to certain private nonprofit foundations, veterans organizations, or fraternal societies are limited to 20 percent of adjusted gross income.

Cash contributions to qualified organizations for (1) religious, charitable, scientific, literary or educational purposes, (2) prevention of cruelty to children or animals, or (3) Federal, State or local governmental units (tuition for children attending parochial schools is not deductible).

Fair market value of property (e.g., clothing, books, equipment, furniture) for charitable purposes. (For gifts of appreciated property, special rules apply. Contact local IRS office.)

Travel expenses (actual or 9¢ per mile plus parking and tolls) for charitable purposes (may not deduct insurance or depreciation in either case).

Cost and upkeep of uniforms used in charitable activities (e.g., scoutmaster).

Purchase of goods or tickets from charitable organizations (excess of amount paid over the fair market value of the goods or services).

Out-of-pocket expenses (e.g., postage, stationery, phone calls) while rendering services for charitable organizations.

Care of unrelated student in your home under a written agreement with a qualifying organization (deduction is limited to $50 per month).

INTEREST

Home mortgage.
Auto loan.
Installment purchases (television, washer, dryer, etc.).

Bank credit card—can deduct the finance charge as interest if no part is for service charges, loan fees, credit investigation fees, or similar charges.

Other credit cards—you may deduct as interest the finance charges added to your monthly statement, expressed as an annual percentage rate, that are based on the unpaid monthly balance.

Points—deductible as interest by buyer where financing agreement provides that they are to be paid for use of lender's money and only if the charging of points is an established business practice in your area. Not deductible if points represent charges for services rendered by the lending institution (e.g., VA loan points are service charges and are not deductible as interest). Not deductible if paid by seller (are treated as selling expenses and represent a reduction of amount realized).

Penalty for prepayment of a mortgage—deductible as interest.

Revolving charge accounts—may deduct the separately stated "finance charge" expressed as an annual percentage rate.

CASUALTY OR THEFT LOSSES

Casualty (e.g., tornado, flood, storm, fire, or auto accident provided not caused by a willful act or willful negligence) or theft losses—the amount of your casualty loss deduction is generally the lesser of (1) the decrease in fair market value of the property as a result of the casualty, or (2) your adjusted basis in the property. This amount must be further reduced by any insurance or other recovery, and, in the case of property held for personal use, by the $100 limitation. Report your casualty or theft loss on Schedule A. If more than one item was involved in a single casualty or theft, or if you had more than one casualty or theft during the year, you may use Form 4684 for computing your personal casualty loss.

MISCELLANEOUS

Appraisal fees to determine the amount of a casualty loss or to determine the fair market value of charitable contributions.

Union dues.

Cost of preparation of income tax return.

Cost of tools for employee (depreciated over the useful life of the tools).

Dues for chamber of commerce (if as a business expense).

Rental cost of a safe-deposit box used to store income-producing property.

Fees paid to investment counselors.

Subscriptions to business publications.

Telephone and postage in connection with investments.

Uniforms required for employment and not generally wearable off the job.

Maintenance of uniforms required for employment.

Special safety apparel (e.g., steel toe safety shoes or helmets worn by construction workers; special masks worn by welders).

Business entertainment expenses.

Business gift expenses not exceeding $25 per recipient.

Employment agency fees under certain circumstances.

Cost of a periodic physical examination if required by employer.

Cost of installation and maintenance of a telephone required by your employment (deduction based on business use).

Cost of bond if required for employment.

Expenses of an office in your home if used regularly and exclusively for certain business purposes.

Transportation expenses for business purpose (20 cents per mile for the first 15,000 miles, and 11 cents per mile in excess of 15,000 miles, plus parking and tolls or actual fares for taxi, buses, et cetera.)

B. Other Tax Return Information Items

TAX TABLES

Tax tables have been developed to make it easier for you to find your tax if your income is under certain levels. Even if you itemize deductions, you may be able to use the tax tables to find your tax easier. In addition, you do not have to deduct $1,000 for each exemption because these amounts are also built into the tax table for you.

MULTIPLE SUPPORT AGREEMENTS

In general, a person may be claimed as a dependent of another taxpayer, provided five tests are met: (1) support; (2) gross income; (3) member of household or relationship; (4) citizenship, and (5) separate return. But in some cases, two or more individuals provide support for an individual, and no one has contributed more than half the person's support. However, it still may be possible for one of the individuals to be entitled to a $1,000 dependency deduction if the following requirements are met for multiple support:

1. Two or more persons—any one of whom could claim the person as a dependent if it were not for the support test—
2. Any one of those who individually contribute more than 10 percent of the mutual dependent's support, *but only one of them*, may claim the dependency deduction.
3. Each of the others must file a written statement that he will not claim the dependency deduction for that year. The statement mut be filed with the income tax return of the person who claims the dependency deduction. Form 2120 (Multiple Support Declaration) may be used for this purpose.

SALE OF PERSONAL RESIDENCE

You may exclude from your gross income some or all of your gain from the sale of your principal residence, if you meet certain age, ownership, and occupancy requirements at the time of the sale. These requirements, and the amount of gain that may be excluded, differ depending on whether you sold your home before July 27, 1978, or on or after that date. The exclusion is elective, and you may elect to exclude gain only once for sales before July 27, 1978, and only once for sales on or after that date.

If you sold your home before July 27, 1978, and you were age 65 or older before the date of sale, you may elect to exclude the gain attributable to $35,000 of the adjusted sales price if you owned and occupied the residence for 5 of the 8 years ending on the date of sale. If you sold the home after July 26, 1978, and you were age 55 or older before the date of the sale, you may elect to exclude $100,000 of gain on the sale if you owned and occupied the residence for 3 of the 5 years ending on the date of sale (or 5 of 8 years under certain circumstances).

Form 2119 (Sale or Exchange of Personal Residence) is helpful in determining what gain, if any, may be excluded.

Additionally, you may elect to defer reporting the gain on the sale of your personal residence if within 18 months before or 18 months after the sale you buy and occupy another residence, the cost of which equals or exceeds the adjusted sales price of the old residence. Additional time is allowed if (1) you construct the new residence; (2) you were on active duty in the U.S. Armed Forces; or (3) your tax home was abroad. Publication 523 (Tax Information on Selling or Purchasing Your Home) may also be helpful.

O